I. LATEST FORECASTS ON THE PERFORMANCE OF THE GLOBAL ECONOMY

In its latest report on prospects for the global economy, the United Nations Department of Economic and Social Affairs (UN/DESA) noted: “Following two years of anaemic and uneven recovery from the global financial crisis, the world economy is teetering on the brink of another major downturn. Output growth has already slowed considerably during 2011, especially in the developed countries. The baseline forecast foresees continued anaemic growth during 2012 and 2013. Such growth is far from sufficient to deal with the continued jobs crises in most developed economies and will drag down income growth in developing countries.

But even this sombre outlook may be too optimistic. A serious, renewed global downturn is looming because of persistent weaknesses in the major developed economies related to problems left unresolved in the aftermath of the Great Recession of 2008-2009.1

Table 1
World economic growth estimates for 2012 and 2013
(Average annual growth, %)

<table>
<thead>
<tr>
<th></th>
<th>UN/DESA</th>
<th>IMF</th>
<th>World Bank*</th>
<th>OECD*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Developed countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>GDP</td>
<td>1.3</td>
<td>1.3</td>
<td>1.9</td>
<td>1.6</td>
</tr>
<tr>
<td>United States</td>
<td>1.7</td>
<td>1.5</td>
<td>2.0</td>
<td>1.5</td>
</tr>
<tr>
<td>Euro Zone</td>
<td>1.5</td>
<td>0.4</td>
<td>1.3</td>
<td>1.6</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.5</td>
<td>2.0</td>
<td>2.0</td>
<td>-0.5</td>
</tr>
<tr>
<td>Developing and emerging countries</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>LAC</td>
<td>4.3</td>
<td>3.3</td>
<td>4.2</td>
<td>4.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.7</td>
<td>2.7</td>
<td>3.8</td>
<td>3.8</td>
</tr>
<tr>
<td>Russia</td>
<td>4.0</td>
<td>3.9</td>
<td>4.0</td>
<td>4.3</td>
</tr>
<tr>
<td>India</td>
<td>7.6</td>
<td>7.7</td>
<td>7.9</td>
<td>7.8</td>
</tr>
<tr>
<td>China</td>
<td>9.3</td>
<td>8.7</td>
<td>8.5</td>
<td>9.5</td>
</tr>
</tbody>
</table>


The rapidly cooling economy is both a cause and an effect of the sovereign debt crises in the Euro area, and of fiscal problems elsewhere. The sovereign debt crises in a number of European countries worsened in the second half of 2011 and aggravated the weaknesses in the balance sheets of banks sitting on related assets. Even bold steps by the Governments of the Euro area countries to reach an orderly sovereign debt workout for Greece were met with continued financial market turbulence and heightened concerns of debt default in some of the larger economies in the Euro zone, Italy in particular.

The problems stalking the global economy are multiple and interconnected. The fiscal austerity measures taken in response are further weakening growth and employment prospects, making fiscal adjustment and the repair of financial sector balance sheets all the more challenging.

As warned by UN/DESA, the United States economy is also facing persistent high unemployment, shaken consumer and business confidence, and financial sector fragility.

The tax austerity measures adopted in industrialized countries further weaken growth and job prospects, making tax and balance adjustments in the financial sector in those nations more difficult. The European Union (EU) and the United States of America form the two largest economies in the world, and they are deeply intertwined. Their problems could easily feed into each other and spread to another global recession. Developing countries would be hit through trade and financial channels.
World trade continued to recover in 2011, albeit at a much slower pace than in 2010. The volume growth of world trade is expected to moderate to about 5.0% in 2012-2013. The UN also expects that the dichotomy between a robust growth in trade in emerging economies, on the one hand, and a weak one in developed economies, on the other hand, will continue. It should be noted that after a strong rebound of more than 14% in 2010, the volume of world exports in goods decelerated visibly, to 7% in 2011.

The level of total world exports had fully recovered to its pre-crisis peak by the end of 2010, but it is estimated to be still below the long-term trend level by the end of 2011.

Developing countries which export primary commodities experienced a strong recovery in their exports value in the first quarter of 2011. However, a portion of the earnings was lost in the second half of the year as a result of plummeting international prices of some primary commodities.

International prices of oil and other primary commodities continued to rise in early 2011, but declined in the third quarter. Nonetheless, average price levels of most commodities for 2011 remained well above those in 2010, by between 20% and 30%.

The reversals in the trend of the prices of primary commodities since mid-2011 have been driven, among others, by four key factors: 1) bleaker prospects for the world economy; 2) positive supply shocks in a number of markets; 3) a sell-off in markets for financial commodity derivatives that occurred in concert with the downturn in global equity markets, and 4) an appreciation of the U.S. dollar.

In the outlook, the international prices of most primary commodities are expected to moderate in both 2012 and 2013, consistent with the forecast of weaker global economic growth. It is to be expected, however, that commodity price volatility will continue to remain high. In the meantime, demand for oil is expected to weaken because of slower economic growth in developed countries. Yet, total demand is expected to remain sustained because of the increased energy needs of developing countries, as well as the restocking of oil inventories.

Food prices may moderate somewhat with the global downturn and expected good harvests for a number of key crops (including wheat). Yet, prices are likely to remain volatile. Continued uncertainty in financial markets in 2012 and 2013 can also be expected to exacerbate commodity price volatility.
EXPECTED SLOWDOWN IN THE INFLOW OF FINANCIAL RESOURCES TO DEVELOPING COUNTRIES

Net private capital flows to emerging economies and developing countries amounted to US$ 575 billion in 2011, about US$ 90 billion of their peak level of 2010.

The collapse in capital flows during the global financial crisis of 2009 was followed by a renewed surge in inflows in 2010. Capital inflows began to fall again in the third quarter of 2011, as a result of the serious deterioration of global financial markets. Anyhow, the current level of inflows remains well below the pre-crisis peak registered in 2007. As a share of GDP of developing countries, net capital inflows are at about half of their pre-crisis peak levels of 2007.

The outlook for external financing will be subject to uncertainty owing to counteracting forces during 2012 and 2013. On the one hand, continued sovereign debt distress in developed economies will sustain the present uncertainty and volatility in global financial markets, and this will likely deter portfolio capital flows to emerging economies.

Deepening of the sovereign debt crisis may lead to more capital being pulled back for deleveraging of financial institutions in developed countries or in a search for safe havens (such as dollar- or Swiss franc denominated assets), as was the case during the financial turmoil of the third quarter of 2011.

On the other hand, higher growth prospects for most emerging economies (despite the downgraded forecast) will likely attract more foreign direct investment (FDI), while interest rate differentials will continue to favour lending to emerging economies even if the risk premiums for some of these economies rise further, a trend already visible in the second half of 2011.

In general, as seen in the following table outlined by the World Bank, a slowdown in relative terms as a share of GDP is expected in the private capital inflows to developing areas in 2012 and 2013.

<table>
<thead>
<tr>
<th>Table 2</th>
<th>International capital flows towards developing countries (% of GDP)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2009</td>
</tr>
<tr>
<td>Total net flows</td>
<td>4.2</td>
</tr>
<tr>
<td>Private flows</td>
<td>3.7</td>
</tr>
<tr>
<td>East Asia and Pacific</td>
<td>3.7</td>
</tr>
<tr>
<td>Europe and Central Asia</td>
<td>2.7</td>
</tr>
<tr>
<td>Latin America and the Caribbean</td>
<td>3.9</td>
</tr>
<tr>
<td>Middle East and North Africa</td>
<td>2.8</td>
</tr>
<tr>
<td>South Asia</td>
<td>4.6</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>4.0</td>
</tr>
</tbody>
</table>


Note: e = estimated; p = prospect

Net disbursements of ODA reached a record high of US$ 128.7 billion in 2010, surging by 6.5 % in real terms versus the previous year.\(^2\) Despite this record level, members of the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD) are expected to increase aid only by 1.3 % in the period 2011-2013, owing to the fiscal constraints of donors.\(^3\)

\(^2\) Despite this record level, the amount of aid fell well short (by more than US$ 20 billion) of the commitments made at the Gleneagles Summit of the Group of Eight (G-8) on 6 July 2005.

\(^3\) At the current rate of progress, donors will not fully deliver on their commitments in the near future and will remain far removed from the long-standing United Nations target of providing 0.7% of their gross national income (GNI) by 2015.
The following chart shows the trends in net flows of foreign lending received by developing countries in 2000-2011, and the United Nations forecast for 2012. The diagram also shows the concomitant accumulation of international reserves in these economies. Note that, generally, virtual stagnation is expected in the IED relative levels and a slight drop in other private capital flows (bank loans, among others) and the ODA.

**Chart 2**

Net capital flows* to developing countries, 2000-2012

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II. RISKS OF ANOTHER GLOBAL RECESSION

According to the United Nations, there is the risk that the world economic scenario could worsen; therefore the baseline assumptions 4 could not be fulfilled and will have to be downgraded. In the opinion of UN/DESA, failure of policymakers, especially those in Europe and the United States, to address the jobs crisis and prevent sovereign debt distress and financial sector fragility from escalating, poses the most acute risk for the global economy in the outlook for 2012-2013. Thus, a renewed global recession is just around the corner.

The developed economies are on the brink of a downward spiral enacted by four weaknesses that mutually reinforce each other: a) sovereign debt distress; b) fragile banking sectors; c) weak aggregate demand (associated with high unemployment and fiscal austerity measures), and d) policy paralysis caused by political gridlock and institutional deficiencies.

All of these weaknesses are already present -according to UN/DESA- but a further worsening of one of them could set off a vicious circle leading to severe financial turmoil and an economic downturn. This would also seriously affect emerging markets and other developing countries through trade and financial channels.

Table 3 shows the possible implications of a more pessimistic scenario of this kind. GDP of the EU would decline by 1.6 % and that of the United States by 0.8 % in 2012. This would constitute about one third of the downturn experienced during 2009. The scenario assumes that financial conditions would not escalate into a full-blown banking crisis with worldwide repercussions, but it also assumes some overshooting of the impact into the real economy - as was the case in 2009 -allowing for a mild recovery in 2013.

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* The measure used here refers to net inflows minus net outflows.

4 See column UN/DESA forecast, Table No. 1.
Table 3
GDP Growth rates. Worst-case scenario

<table>
<thead>
<tr>
<th></th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Deviation with respect to baseline forecast</th>
</tr>
</thead>
<tbody>
<tr>
<td>World</td>
<td>2.8</td>
<td>0.5</td>
<td>2.2</td>
<td>-2.1</td>
</tr>
<tr>
<td>Developed countries</td>
<td>1.3</td>
<td>-0.9</td>
<td>1.1</td>
<td>-2.1</td>
</tr>
<tr>
<td>United States</td>
<td>1.7</td>
<td>-0.8</td>
<td>1.1</td>
<td>-2.3</td>
</tr>
<tr>
<td>Euro Zone</td>
<td>1.5</td>
<td>-2.0</td>
<td>0.6</td>
<td>-2.4</td>
</tr>
<tr>
<td>Japan</td>
<td>-0.5</td>
<td>0.5</td>
<td>1.2</td>
<td>-1.5</td>
</tr>
<tr>
<td>Developing countries</td>
<td>6.0</td>
<td>3.8</td>
<td>4.5</td>
<td>-1.7</td>
</tr>
<tr>
<td>LAC</td>
<td>4.3</td>
<td>0.8</td>
<td>2.4</td>
<td>-2.5</td>
</tr>
<tr>
<td>Brazil</td>
<td>3.7</td>
<td>0.3</td>
<td>2.0</td>
<td>-2.4</td>
</tr>
<tr>
<td>Mexico</td>
<td>3.8</td>
<td>-0.6</td>
<td>1.8</td>
<td>-3.1</td>
</tr>
<tr>
<td>Caribbean</td>
<td>3.4</td>
<td>3.8</td>
<td>2.6</td>
<td>0.3</td>
</tr>
<tr>
<td>Russia</td>
<td>4.0</td>
<td>-3.6</td>
<td>3.0</td>
<td>-7.5</td>
</tr>
<tr>
<td>India</td>
<td>7.6</td>
<td>6.7</td>
<td>6.9</td>
<td>-1.0</td>
</tr>
<tr>
<td>China</td>
<td>9.3</td>
<td>7.8</td>
<td>7.6</td>
<td>-0.9</td>
</tr>
</tbody>
</table>


Developing economies would likely take a significant blow. The impact would vary as their economic and financial linkages to major developed economies differ across countries. UN/DESA reckons that developing countries in East Asia would suffer mainly because of a drop in their exports to major developed economies. Those in Africa, Latin America and Western Asia would be affected by declining primary commodity prices. All emerging economies would have to cope with large financial shocks, including a contagious sell-off in their equity markets, reversal of capital inflows and direct financial losses due to the declining values of the holdings of European and United States sovereign bonds, which would affect both official reserve holdings and private sector assets.

Note in the table above that deceleration in the economic growth by 2012 in Latin American and Caribbean countries could be higher than that expected —with regard to the baseline scenario— for the economies of developing countries as a whole. This growth deceleration is not quite as big as in 2009, yet several countries in the Latin American and Caribbean region —in the event of confirming such a dire scenario— would suffer negative per capita income growth, likely causing renewed setbacks in poverty reduction and in achieving the other Millennium Development Goals.

The large and persistent external imbalances in the global economy that have developed over the past decade remain a point of concern for policymakers. Reducing these imbalances has been the major focus of consultations in the G20. In practice, after a substantial narrowing during the Great Recession, the external imbalances — of the major economies with current-account surpluses, such as China, Germany, Japan and a group of oil exporting developing countries versus continued deficit in the United States — stabilized at about half of their pre-crisis peak levels. At issue in governments and specialized international organizations is whether the adjustment of the imbalances in major economies has been mainly cyclical or structural.

In this regard, most developing countries face a conundrum. On the one hand, they need to protect themselves against volatility of primary good prices and foreign lending terms through somewhat restrictive macroeconomic policies and the accumulation of reserves, thus contributing to the reduced global aggregate demand. On the other hand, developing countries need to boost their investment in order to sustain high growth and they also need to redirect their economies in order to further reduce poverty and achieve more sustainable production levels.
III. SPREADING THE CRISIS TO LATIN AMERICAN AND CARIBBEAN COUNTRIES

The current economic crisis —this time with its epicentre in the Euro zone, yet it is likely to worsen in the United States— is already appearing as a marked slowdown of said economies\(^5\). This is causing higher volatility in global financial markets due to high uncertainty and lower demand of goods and services exported to the countries which face the ordeal.

The consequences in Latin America and the Caribbean are difficult to ascertain. They will mostly depend on the conditions of several nations in terms of foreign and domestic indebtedness; the effect of primary commodity prices on their public revenues; the characteristic features of their foreign lending and its macroeconomic (tax, monetary and foreign exchange) policies.

In this regard, several Latin American and Caribbean countries are in favourable conditions to deal with external troubles, similar to those expected to bring about by a worsening debt crisis in the Euro area. Thus, compared with developed nations, the level of foreign and public indebtedness in the region is low; international reserves have risen and, while the situation nowadays is much more difficult, Latin American and Caribbean nations could implement counter-cyclical measures, as most Latin American and Caribbean governments did in the second half of 2009 and the first half of 2010.

Notwithstanding, in some countries —particularly Caribbean and several Central American nations— the tax situation is more complex, mostly because they are net importers of food, hydrocarbons and minerals.

Therefore, their external balances have been particularly exposed to the troubles in those markets.

A lower demand of exports from the Latin American and Caribbean region by the European Union (EU) is among the immediate effects of the stalemate in the Euro area.

Over the past three decades, the EU share in the Latin American and Caribbean trade has been downtrend. While it remains the second trade partner of the region, the EU could be displaced by China by the middle of this decade. For their part, Latin America and the Caribbean accounted for less than 3% of the EU total foreign trade.

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\(^5\) According to press releases and the reports of some specialized organizations, by the end of January 2012, the United Kingdom, Belgium and Spain were virtually immersed in a new recession.
The following are the Latin American and Caribbean countries that are more exposed to a potential negative impact as a result of the recession in Europe – and also perhaps in the United States – bearing in mind the significance of those markets as a destination for LAC exports of goods.

While Latin American and Caribbean exports in the aggregate to the EU totalled around 13% and exports to the United States have significantly lowered over the past years, these markets have a high clout for some Latin American and Caribbean countries.

The EU market accounts for more than 20% out of total exports of Chile and Brazil. Nicaragua, Costa Rica, Colombia, Ecuador, Guatemala, Honduras, Salvador, the Dominican Republic and Mexico focus more than 40% of their total exports on the U.S. market.

Anyhow, in the analysis of the potential effects of a drastic reduction of the US and EU external demand, according to ECLAC, the makeup of exports is also relevant for the purposes of a possible reallocation to other markets.

Exports of standard goods (i.e., primary commodities) would pose an advantage in the short term as to some flexibility concerning the destination of exports compared with the exports of products which are more specific due to the characteristic features of consumers and providers in target markets.

---

6 Based on ECLAC data, if in 2000 the US market share in total exports of LAC goods accounted for 59.7%, in 2010 it would plunge to 39.6%. By the same token, in 2000 LAC bought 39.6% of all US imports, compared with 29.1% in 2010.

As mentioned in the first section of this paper, the baseline outlook estimates that primary commodity prices will remain relatively high. Nevertheless, in the event of an adverse situation resulting from a worse-than-expected economic environment, export prices could deteriorate. This could negatively affect the balances in the public sector of those countries where foreign sales are of the essence as a constituent element of tax revenues.

The foregoing would have adverse effects on the capacity to cope with public expenditure. In this case, counter-cyclical policies of individual Latin American and Caribbean nations would depend on their tax standing, availability of savings in sovereign funds, the indebtedness level and access to domestic and foreign markets.

This analysis should also consider the relative importance of remittances from LAC residents in Europe and the United States to their countries of origin.

**Chart 4**

*Estimated decline in remittances in the event of a deterioration in global economic conditions*

![Chart 4](image)

*Source: World Bank.*

In the baseline forecast, remittances to LAC are expected to drop by more than 3%. In the advent of a deteriorating global economy, Latin America and the Caribbean would be the third region most affected in the world, with remittances shrinking by almost 7%. According to the World Bank, Nicaragua is among the LAC countries that would be mostly hit. Nicaraguan revenues on this account would sink by 1% of GDP in the baseline scenario, or 2% of GDP in the event of serious worsening of global economic conditions. As regards Salvador, remittances would dive by 0.6% of GDP in the baseline outlook and more than 1% of GDP in the event of deteriorating global economic conditions. Another means of spreading the crisis is tied to its effects on world financial markets and the potential outcome in foreign lending for LAC economies.

As shown in Chart 5, and according to the baseline forecast of the World Bank, LAC access to international private capital markets is expected to narrow. Sure enough, the particular effects of such scenario will depend on the indebtedness level and financial needs of domestic economies.
Given the strong requirements for recapitalization from banks in the Euro area, it is also likely that borrowing will be reduced – at least temporarily – for some LAC countries.

According to the IMF, if average losses expected in the market due to the exposure to Greece, Ireland, Italy, Portugal and Spain (GIIPS) materialize, related losses for international banks would result in a slight deleveraging process which would mainly affect European countries. In the LAC region, only Panama and Belize are expected to experience a significant contraction of lending from foreign banks.

However, if expected losses for the market exposure to the GIIPS turn out to be larger, this would cause big losses for international banks.

Therefore, in the absence of recapitalization, some European banks would have to deleverage in order to restore their capital ratios.

In this context, Latin American and the Caribbean would be among the most stricken regions. Foreign bank lending would plummet in Chile (2½% of GDP), Brazil (1½%) and Mexico (1¼%). Note that the impact of deleveraging depends not only on the presence of European banks in LAC countries, but also on the financing structure of foreign subsidiaries; the volume of the direct cross-border lending from world banks, and the size of the financial system. In Brazil, although foreign banks do not have such a strong presence as in neighbouring countries, the ratio of cross-border direct lending from European banks is larger and some European branch offices mostly depend on bulk lending.

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*This analysis presents some data restrictions and relies on some simplified assumptions. Bank losses and needs for deleveraging are estimated for the national bank systems of the countries which report their data to the Bank for International Settlements (BIS). No data on the exposure to GIIPS of individual banks are available. In addition, it is assumed that losses for out-of-balance exposure are an average of all sectors; that there is no bank recapitalization; and that deleveraging is evenly apportioned among all international (domestic and foreign) bank assets, in order to exclude any additional subjective criteria from the analysis.*
Growth in Latin America and the Caribbean in 2012 will mostly rely on the size and extent of the downturn in the global economy. As shown in previous tables, the economic slowdown or even recession is likely to have adverse effects on LAC countries through the channels of transfer towards the real sector – by means of tradable goods and services and remittances – and also in certain conditions, via financial markets.

At any rate, as long as emerging economies continue to grow faster than the developed world, the total impact on Latin American and Caribbean exports will depend on the relative importance of the destination markets of their foreign sales and the clout of foreign trade on their economies. However, it should also be considered that the slow growth of developed countries could affect the exports of emerging economies, particularly the demand of Latin American and Caribbean primary commodities.9

Generally, in default of the bleakest scenario referred to in the second section of this paper, while at lower rates than those in 2010-2011, the LAC region is expected to grow. In this connection, many countries are somewhat able to implement policies to help sustain the demand, because of the following factors:

i) The levels of international reserves have been replenished. While a current account deficit is expected, it could be financed without hitting reserves too much.

ii) Public accounts have recorded an improvement in 2010-2011. With the exception of a number of Caribbean countries, indebtedness levels remain low. This will enable several LAC countries to place debt in financial markets.10

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iii) Inflation stopped rising and it is expected to lower in 2012, both in the world and the LAC region. Accordingly, several countries, particularly those that had boosted their interest rates, will have some leeway in terms of monetary policy to take a counter-cyclical action.

iv) The global financial crisis of 2008 left in the region a legacy of important experiences in the field of coordination of counter-cyclical monetary and tax policies and the steps needed to prevent lack of liquidity in domestic financial markets. Notwithstanding, it should be granted that both vulnerability and the ability to implement policies to counter the impact of deceleration of the global growth are different from each another country.

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**Chart 7**

Latin America and the Caribbean: GDP growth rates, 2012

*(percentages) * Projection

Haiti 8.0
Panama 6.5
Peru 5.0
Ecuador 5.0
Argentina 4.8
Dominican Rep. 4.5
Colombia 4.5
Bolivia (Plur. State) 4.5
Chile 4.2
Uruguay 4.0
Paraguay 4.0
South America (10 countries) 3.9
Central America (9 countries) 3.7
Latin America and the Caribbean 3.7
Nicaragua 3.5
Costa Rica 3.5
Brazil 3.5
Mexico 3.3
Venezuela (Bol. Rep.) 3.0
Honduras 3.0
Guatemala 3.0
Cuba 2.5
El Salvador 2.0
Caribbean 1.7

(Source: ECLAC Preliminary overview of the economies of Latin America and the Caribbean 2011)

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11 ECLAC (2011). Ibidem
According to ECLAC, LAC economies will grow in 2012 at 3.7%, the lowest rate since 2003, except for the numbers recorded in 2009. The slowdown versus 2011 results would harm most countries, with the exception of Brazil, which, after a marked reduction in its pace in 2011, it would slightly surge. Caribbean nations would also grow more than in 2011, particularly after overcoming the contraction of Trinidad and Tobago economy. Nevertheless, the sub region would continue at a slow pace, conditioned by its close ties to European and US economies. Demand of these countries for Caribbean goods and services would remain slender.

Against this backdrop, Latin America and the Caribbean should, generally, keep on the current pace of their economic policies and continue recovering the margins needed to implement counter-cyclical policies in the future. Further, LAC countries should get ready to change their policies if the worst forecast materializes.

It should be granted that Latin America and the Caribbean, on average, are today as dependent on raw materials as 40 years ago, and their prices are very sensitive to the world growth. Therefore, a weaker world demand could punish LAC exchange terms. Nevertheless, as known, countries which implement sound policies, especially during the booming stage of the cycles of raw material prices, are better performers. Since economic fundamentals have been reinforced, the LAC region is nowadays in better condition to withstand exogenous shocks.

To capitalize on these advantages and face multiple challenges that still persist, particularly regarding a better quality of life and reduction of poverty and inequity, Latin American and Caribbean countries should not lose sight - in view of short-term urgencies- of the need to remove development constraints and take a quantitative and qualitative leap in the supply of public services. Despite the headway made in the region during the boom in reduction of poverty - from 44% of the population in 2002 to 33% in 2008 - and, to a lesser extent, reduction of inequity, a wide gap is still to be bridged and economic and social challenges are still to be faced.

The LAC region should keep on making its best effort to shorten social unbalances. One out of three Latin American and Caribbean citizens lives in poverty - 180 million people - and 10 LAC economies continue being among the 15 most unequal economies in the world. Policies on conditioned transfers have succeeded in reducing poverty, yet the lack of far-flung social protection networks remains a serious problem for most Latin American and Caribbean citizens. Importantly also, mechanisms and incentives are not easy to set towards an economy based on knowledge and innovation, capable of improving productivity levels and diversifying the production structure, where there are signals, such as the exchange rate, which sponsor profitability and the expansion of sectors based on natural resources.

Definitely, Latin American and Caribbean countries, should lay now the foundations for sustainable development, no matter the reversal of some favourable exogenous conditions.12

If no action is taken now, exports will continue focused on the exports of low added-value primary commodities, with oligopoly markets which hinder income distribution and social inclusion. As part of this effort, tax reforms should be undertaken to narrow the huge gap between the needs and available resources, as well as “neutrality” or “regresiveness” of LAC tax systems, which, rather than reducing inequity, invigorate it.

Over the past two decades, the soundness of public finance in the LAC region has been noteworthy. Public debt has shrunk from near 80 % of GDP in the early nineties to around 30 % nowadays partly due to rising tax revenues. Nonetheless, to meet citizens’ expectations, most Latin American and Caribbean countries have fewer resources per inhabitant compared with their counterparts in the developed world, or many emerging economies for that matter. This is an important constraint that LAC countries face to meet the demands of their societies.13

In addition, economic growth should be envisaged as the result of the interplay of several factors, namely: accumulation of capital; accrual of knowledge applied to production; structural change and institutional development. The income gap between developed countries and Latin America and the Caribbean is wider, particularly due to increasing differences in productivity.

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Latin America and the Caribbean could speed up their economic growth and bridge the per capita income gap existent resources. This means, in addition to strong investment in the development of infrastructure – which is pivotal in bridging productivity gaps – coherent policies on industrial development and cutting-edge technology. These policies should also rely on a pragmatic and strategic proposal including investment as a key component in the development program and policies. Such policies, in addition to contributing to a faster and sustainable growth and structural and technology streamlining, would allow for more effective foreign trade integration, by enhancing the domestic added value of goods and services through forward and backward linkage of domestic production14.

And on top of these policy-related strategic challenges, LAC countries are advised to resolutely cement economic relations, integration and cooperation among them. As SELA has recently reasserted, despite the high uncertainty about the future, the conditions arisen from the current crisis in trade growth and global economy show that the global economy is unlikely to go back to the prevailing conditions over the past twenty years.15

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